XLMEDIA

Financial Statement

2017 ANNUAL REPORT AND FINANCIAL STATEMENTS

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2017 Highlights

XLMedia and its subsidiaries (the "**Group**") are a market-leading provider of digital marketing services.

The Group uses proprietary tools and methodologies to generate high value traffic from multiple online & mobile channels for its online customers.

The Group operates on a performance based business model, where in return to its users, customers remunerate the Group for a share of the revenue generated by such user, a fee generated per user acquired, fixed fees or a hybrid of any of these three models.

In 2017 the Group delivered another record breaking year in which it has made further progress in executing its strategic priorities and generated significant value for the shareholders.

The Board is committed to delivering further progress in 2018.

Financial highlights

- Revenues increased 33% to $137.6 million (2016: $103.6 million)
- Gross profit increased 37% to $73.1 million (2016: $53.3 million)
- Adjusted EBITDA[1] increased 36% to $47.1 million (2016: $34.6 million)
- Profit before tax increased 27% to $39.3 million (2016: $31.0 million)
- Strong balance sheet with $33.8 million working capital and total equity of $116.7 million or 76% of total assets
- Cash and short–term investments at 31 December 2017 were $43.3 million
- Earnings per share increased 25% to $0.15 (2016: $0.12)
- Final dividend of $8.0 million or 3.7105 cents per share to be paid in Pound Sterling (2.6829 pence per share), a total of 7.7331 cents per share for the year (2016: 7.6069 cents per share for the year)

Operating highlights

- Significant acquisition momentum during the period continues to drive geographical and sector expansion. Key transactions included:
  - Personal finance acquisitions – GreedyRates, a Canadian credit card comparison portal, and Money Under 30, a US personal finance website, now both fully integrated
  - Mobile apps acquisition – ClicksMob, a mobile performance–based user acquisition platform
  - Entrance into the high growth cyber security sector – Acquisition of Securethoughts, a US cyber security comparison website
  - Expansion into Romania – Completed the acquisition of a Romanian portfolio of publishing assets, leveraging the Group's affiliate license in a growing regulated market

Post period end highlights

- Raised an additional $43.6 million of cash to further accelerate acquisition strategy
- Acquired a number of leading Finnish gambling related informational websites from Good Game Ltd for a total consideration of up to €15 million
- Acquired three personal finance websites based in the US for a total consideration of $5.15 million.

1 Earnings before interest, taxes, depreciation and amortisation and adjusted to exclude share based payments and expenses related to acquisition agreements

Chief Executive Officer's Review

During the course of 2017, XLMedia delivered further progress against the Group's strategic plan of generating organic growth alongside acquisition-led expansion into new markets and verticals. We firmly believe that our continued investment in core infrastructure and technology ensures XLMedia maintains its competitive edge and contributed to delivering another year of record financial performance for the Group. Along with maintaining strong organic growth, XLMedia also completed a number of strategic acquisitions in 2017, diversifying both sector expertise and broadening our geographical reach.

Acquisitions

During 2017, the Group made its first entry into the personal finance sector through the acquisition of GreedyRates, a Canadian credit card comparison portal, and Money Under 30, a US personal finance website. These acquisitions have now been fully integrated into the Group's operations and we are already seeing the benefits of integration onto the Group's proprietary technology. In addition, post period end, the Group has further enhanced its footprint in this area, having agreed to acquire three US focused personal finance websites, which will further increase the Group's foothold in the North American personal finance domain. These additional websites complement those already in our portfolio as we continue to grow our expertise and presence in the space.

Additional publishing acquisitions in 2017 added further diversification with the US cyber security comparison website Securethoughts, and a Romanian network following the Group securing a Romanian affiliate license.

Mobile marketing capabilities – The acquisition of ClicksMob in February 2017 significantly extended XLMedia's addressable market. By combining ClicksMob and Dau-Up, the Group has been able to leverage its expertise within games and social marketing across additional verticals and geographies.

All acquired businesses and assets have been fully integrated into the Group's operations.

Post period end, the Company also announced the acquisition of a number of leading Finnish gambling related informational websites for up to €15 million.

Fundraising and investment

In January 2018, we completed a $43.6 million (£31.7 million) fundraising to further support the continued acquisition strategy. We believe there is a significant opportunity to further strengthen our market share through both organic and acquisitive growth. To that end, we continue to identify and evaluate acquisition targets and foresee this as a core part of our future strategy. We strive for any acquisitions we undertake to be earnings accretive and to simultaneously benefit from greater economies of scale as part of the wider group.

In total over the course of 2017, we invested $31.3 million in extending our reach – both geographically and into additional verticals – adding websites and channels as well as developing additional capabilities to our technology infrastructure.

Technology

Our proprietary technology platforms remain a critical component in driving growth across the business. We continue to invest in our technology to ensure we maintain our market leading position.

- **Palcon** – our proprietary content management system – has been a key success factor for our organic growth. We recently completed the migration of GreedyRates onto Palcon which has led to a 6% increase in returning visitors, while time spent on the site increased by over 25% overall, and by over 70% on mobile devices. The Palcon infrastructure improved the loading time of the site by 43% as well as added features to further improve experience for users. We continue to migrate all acquired assets onto our platform, to improve performance and efficiently manage the acquired websites within our teams.
- **Rampix** is our proprietary campaign management platform and was awarded 'Instagram Marketing Partner' for Ad Technology in 2017.

  Our technology and infrastructure capture data from thousands of sources daily including online traffic sources, targeting methods and channels. Through the constant analysis of this data against successful outcomes, we are able to optimise future campaigns and assets to maximise return on our investment.

Chief Executive Officer's Review

Diversification of revenues
A combination of strong organic and acquisitive growth has seen the Group further diversify its revenues, both geographically and by sector.

In 2017, 28% of revenues were derived from Scandinavia (2016: 32%), North America generated 22% (2016: 21%) and other European countries generated 30% of revenues (2016: 27%). Following the acquisition of ClicksMob we have now seen the first significant revenues from APAC, which contributed approximately 8% of Group's revenues in 2017.

Through our strategy to diversify into sectors, gambling accounted for 64% of 2017 revenues (2016: 70%) and 2018 will benefit from full year contribution from recent acquisitions.

Enhanced regulation continued into 2017. We see the trend of increased regulation emerging across all verticals, driven by a number of factors including advertising regulations and privacy protection. In the gambling space, for example, increased regulation presents the Group with both challenges and opportunities and we remain ever vigilant of both. The Group has already implemented strict internal procedures and compliance programs alongside staff training and we believe XLMedia is well positioned to be one of the first to capitalise on access to newly regulated markets and a stricter backdrop across our key verticals.

The results delivered in 2017 reflect the continued success of our stated strategy and we expect growth to continue in 2018.

Business Segments review

	Publishing	Media	Partner Network	Total
		($'000)		
2017				
Revenues	62,894	66,428	8,310	137,632
% of revenues	*45.7%*	*48.3%*	*6.0%*	*100%*
Direct profit	50,309	19,982	1,423	71,714
Profit margin	*80.0%*	*30%*	*17.1%*	*52.1%*
2016				
Revenues	46,057	47,645	9,903	103,605
% of revenues	*44.5%*	*45.9%*	*9.6%*	*100%*
Direct profit	38,384	13,779	1,160	53,323
Profit margin	*83.3%*	*28.9%*	*11.7%*	*51.5%*

2017 showed significant progress for both the publishing and media divisions, driven by organic growth complemented with recent acquisitions.

- ***Publishing***
  Publishing revenues grew 37% to $62.9 million (2016: $46.1 million). During 2017 we acquired new websites and domains for $21.1 million. Although the Group has acquired new publishing assets in the period, the majority of the growth reported in 2017 has been organic.

  Direct profit margins remained high at $50.3 million or 80% of publishing revenues (2016: $38.4 million, 83%). We expect publishing direct profit to marginally reduce as a percentage, as we continue to invest and develop our existing assets and optimize the recently acquired assets for improved performance going forward.

Chief Executive Officer's Review

- ***Media***

  Media revenues grew 39.4% to $66.4 million (2016: $47.6 million). The growth was primarily driven by the acquisition of ClicksMob in February 2017 but did also include organic growth. Towards the end of 2017 we ceased activities in the division with lower than desired margin which will impact revenue growth of the media segment this year but is expected to have minimal effect on profit targets.

  During 2017, we merged ClicksMob and Dau-Up to create an integrated unified mobile unit, focusing on user acquisition for mobile apps and games. The ClicksMob acquisition added diversity across a number of verticals, including e-commerce, travel, entertainment and finance. The acquisition further strengthened Dau-Up's increasing dominance in verticals outside of gaming and added presence in APAC.

  Direct profit for the media segment increased 45% to $20 million or 30% of revenues (2016: $13.8 million, 29%).

- ***Partner Network***

  As anticipated, our Partner Network revenue decreased 16% to $8.3 million (2016: $9.9 million). In 2016 we undertook a full review of our partners in this network, with a view to implementing more stringent sign up and operations criteria and, where necessary, ceasing activity with certain partners to improve overall quality. Although this review has led to lower revenues, there was no impact on profit.

  Our Partner Network serves as a complementary channel, giving us the opportunity to provide marketing services which are not currently offered through our publishing and media networks.

Current Trading and Outlook

The business has established strong foundations for growth, adding both scale and vertical diversity in 2017. Our focused acquisition strategy is closely aligned with the Company's stated strategy and underpins our commitment to maintaining shareholder value.

The Board therefore looks forward to another year of continued execution of our strategy. As such the Board is declaring a dividend of $8.0 million or 3.7105 cents per share payable in Pound Sterling (2.6829 pence per share) on 20 April 2018 to shareholders on the register at the close of business on 23 March 2018. The ex-dividend date is 22 March 2018.

O. Weihs

Ory Weihs

Chief Executive Officer

Financial Review

	2017	2016	Change
		'000	
Revenues	**137,632**	103,605	+33%
Gross Profit	**73,145**	53,323	+37%
Operating expenses	**32,376**	23,226	+39%
Operating income	**40,769**	30,097	+35%
Adjusted EBITDA	**47,120**	34,621	+36%
Profit Before Tax	**39,345**	31,000	+27%

In 2017 XLMedia delivered record revenues of $137.6 million, reflecting an increase of 33% compared to the previous year.

Gross profit reached $73.1 million or 53% of revenues, representing 37% growth compared to previous year (2016: $53.3 million, 51% of revenues).

Operating expenses for 2017 were $32.4 million, an increase of 39% compared to the previous year (2016: $23.2 million). The increase in costs is primarily attributable to staff and relevant overhead, mainly in research and development and sales and marketing as well as an increased amortisation and impairment expense in general and administration.

Operating expenses included $4.5 million of research and development expenses, reflecting an increase of 100% compared to the same period last year (2016: $2.2 million). These expenses are in addition to investments in technology and internal systems developed during the period of $3.8 million (2016: $3.8 million). The Group expects to continue investment in technology as we see technology a key driver to growth and profit for the coming years. Operating expenses also reflected a 51% increase in sales and marketing expenses to $6.3 million (2016: $4.1 million) mainly for payroll costs. As the Group enters more verticals and geographies, we expect to increase sales and marketing efforts to drive sales in new business for the Group.

Adjusted EBITDA[1] reached $47.1 million or 34% of revenues, reflecting an increase of 36% to the previous year (2016: $34.6 million, 33%).

Net finance expenses for 2017 were $1.4 million compared to net finance income of $0.9 million in 2016. The Group has dynamic hedging activity in place to mitigate material exposure to foreign currencies. In 2016 the finance income recorded was driven by fair value gains for forward contracts, although not yet matured. In 2017 the forward contracts recorded a net finance expense.

As a result of the high revenues and gross profit, profit before tax increased by 27% to $39.3 million (2016: $31.0 million). Net income for the period was $31.9 million, reflecting an increase of 25% (2016: $25.6 million). Net income included non-controlling interests of $1.5 million. Following the acquisition of the minority rights in Marmar Media, reported in August 2017, the minority rights going forward will decrease.

As at 31 December 2017 the Company had $43.3 million in cash and short term investments compared to $35.2 million as at 31 December 2016. The change in cash reflects an increase of $41.1 million provided by operating activity, offset by spending $22.9 million on investments mainly for technology and acquisitions and $13.4 million for financing activities. Financing activities included $15.5 million of dividend payments to shareholders (2016: $12.4 million), payment of $1.8 million dividends to non-controlling interests (2016: $1.8 million), offset by a receipt of $5.0 million long term bank loan.

Current assets as at 31 December 2017 were $67.1 million (31 December 2016: $56.7 million), and non-current assets were $87.4 million (31 December 2016: $70.4 million). The increase in non-current assets is attributed mainly to investments in domains and websites as well as the ClicksMob acquisition.

Total equity as at 31 December 2017 reached $116.7 million, or 76% of total assets (2016: 81%). Earlier this year, the Group announced the successful placing of 16 million new ordinary shares to raise $43.6 million. Together with the cash on the balance sheet, the Group is well positioned to continue executing its strategic plan.

1 Earnings before interest, taxes, depreciation and amortisation and adjusted to exclude share based payments and expenses related to acquisition agreements

Board of Directors

The Board is responsible for the overall management of the Group including the formulation and approval of the Group's long term objectives and strategy, the approval of budgets, the oversight of the Group's operations, the maintenance of sound internal control and risk management systems and the implementation of Group strategy, policies and plans. Whilst the Board may delegate specific responsibilities, there is a formal schedule of matters specifically reserved for decision by the Board; including, amongst other things, approval of significant capital expenditure, material business contracts and major corporate transactions. The Board formally meets on a regular basis to review performance.

During 2017, the Board met seven times.

Ory Weihs – Chief Executive Officer
Mr. Weihs is one of the founders and leads the Group's business development and key strategy, focusing on expanding the groups reach and technological abilities. Mr. Weihs is an entrepreneur who has been deeply involved in the online gambling & digital advertising industries for over ten years. He has a B.Sc. in Industrial Engineering from the Technion – Israeli Institute of Technology from 2007.

Chris Bell – Independent Non-Executive Chairman
Mr. Bell joined Ladbroke Group in 1991, becoming CEO of Ladbroke Group in 1994, in 2000 he joined the board of Hilton Group PLC. Following the sale of the Hilton hotel division, in 2006, he became CEO of Ladbrokes PLC, leaving in 2010. Mr. Bell is Senior Independent Director and Chairman of the Remuneration Committee at Quintain Estates & Development PLC, Non-executive Director at Spirit PLC, a member of The Responsible Gambling Strategy Board which advises the Government and The Gambling Commission in the UK, Chairman of TechFinancials PLC which listed on UK AIM in March 2015, a technology and B2C (OptionFair) provider in the Financials market and a Trustee of the Northern Racing College. Prior to 1991 Mr. Bell held various senior positions at Allied-Lyons PLC, most latterly as a Director of Victoria Wine.

Richard Rosenberg – Independent Non-Executive Director
Mr. Rosenberg is a qualified chartered accountant and a partner in SRLV, a London-based multi-disciplinary accountancy and consultancy firm which he co-founded in 1988. Mr. Rosenberg is the Non-Executive Chairman of Livermore Investments Group Limited, an AIM quoted investment company and a trustee of Teenage Cancer Trust.

Amit Ben Yehuda – Independent Non-Executive Director
Mr. Ben Yehuda has over 20 years' experience across a number of high growth industries focusing on implementing strategic growth initiatives and executing significant levels of M&A. Mr. Ben Yehuda has two bachelor's degrees in economics and political science and an M.B.A, all received from the University of Tel Aviv. Currently, Mr Ben Yehuda is Chief Executive Officer of Kardan Communications and Chief Executive Officer of Kardan Technologies.

Jonas Martensson – Non-Executive Director
Mr. Martensson has substantial experience in both corporate and capital markets and great exposure across the Nordics. He is currently CEO of Mojang AB ("Mojang"), the Swedish video game developer and publisher acquired by Microsoft in 2014, who are best known for creating the popular independent game, Minecraft. Mr. Martensson previously founded betting operator Mobilbet.com, and held senior roles at Betsson, latterly in Betsson Technologies AB, as Head of Mobile. Mr. Martensson holds a Master of Science in Business Administration, major in entrepreneurship from Stockholm university School of Economics and Management and a Master of Science in Business Administration, major in Business Development from Södertörn University College, Sweden.

On 12 October, 2017, Mr. Martensson was appointed as a Non-Executive Director of the Company.

Yehuda Dahan – Chief Financial Officer
Mr. Dahan has over 14 years' experience in accounting and finance. He was previously CFO for Barinboim Investment Group and Head Controller of Milomor Group (Israel). He holds a B.A in Economics and Accounting from Tel-Aviv University and is a licensed CPA (Israel).

On 30 January, 2018, Mr. Dahan was appointed as a Director of the Company.

Upon Mr. Dahan's appointment, the Board of the Company comprises two executive Directors and four non-executive Directors.

Directors' Report

The Directors present their report and Group financial statements for the year ended 31 December 2017.

Results and review of the business
The Directors' Report should be read in conjunction with the full 2017 annual report and financial statements.

Dividends
The Company has historically paid dividends and intends to continue doing so. The Board's policy is to pay out at least 50 per cent of retained earnings in any financial year by way of dividend. The Directors will continue to monitor the level of cash retained within the business as well as investment opportunities available to the Group and, from time to time, review the continued appropriateness of such policy.

In respect of 2017, the Directors approved a total dividend of $16,000,000 representing 7.7331 cents per Ordinary Share.

Directors
The Directors' interests in the Ordinary Share capital of the Company were:

	Number of Ordinary Shares	
	2017	**2016**
Chris Bell	**357,000**	357,000
Richard Rosenberg	**51,000**	51,000
Ory Weihs*	**4,000,240**	10,807,756

On 31 December 2017, the company had 200,352,402 shares issued (2016: 200,352,402 shares issued)[2].

* At the end of 2017 Ory Weihs holds his shares directly. At the end of 2016 Ory Weihs holds 5.39% % of the Company's existing issued share capital, of which 2,360,417 ordinary shares are held directly and 8,447,339 ordinary shares are held through an indirect economic interest in (but with no control of the voting rights attaching to) such ordinary shares which are held by Webpals Enterprises Limited.

The Group has provided to all of its Directors limited indemnities in respect of costs of defending claims against them and third party liabilities. The Group has made qualifying third party indemnity provisions for the benefit of its Directors which were available during the period and remain in force at the date of this report.

Share capital
The authorised and issued share capital of the Company, together with details of the Shares allotted during the year are shown in note 13 of the financial statements. Pursuant to the decision passed by the shareholders at the last Annual General Meeting, and in accordance with the Company's Article of Association the directors are authorised to allot up to an aggregate number of 66,784,134 shares, being 33⅓% of the issued share capital of the Company. Also, the Board was authorised by the shareholders to allot and issue, wholly for cash, with disapplication of pre-emption right up to 20,035,240 shares representing 10% of the issued share capital of the Company. These authorities will expire on the date of the Annual General Meeting and approval will be sought for new authorities at the Annual General Meeting.

2 In January 2018, the Company issued 16,000,000 Ordinary shares in a placing to institutional investors at a price of 198 pence per Ordinary share.

Directors' Report

Major shareholders

At 31 December 2017, the following interests of shareholders in excess of 3%, have been notified to the Company.

	Number of shares held	Shares as % of issued share capital
SYZ & CO Asset Management LLP	13,111,414	6.4
BlackRock Investment Management (UK) Ltd.	11,977,813	5.9
Janus Henderson Investors	10,038,620	4.9
River and Mercantile Asset Management LLP	9,005,145	4.4
Swedbank Robur Fonder AB	8,948,594	4.4
Santander Asset Management UK Limited	8,227,828	4.0
Hargreaves Lansdown Asset Management	7,983,280	3.9
Hargreave Hale Ltd.	7,302,914	3.6
Gobi Capital LLC	7,225,589	3.5
Slater Investments Ltd.	7,181,328	3.5

Corporate Governance

Although there are no specific corporate governance guidelines which apply generally to companies incorporated in Jersey, the Directors are subject to various general fiduciary duties and duties of skill and diligence under Jersey company laws and statute. In addition, the Directors recognise the value and importance of high standards of corporate governance. Accordingly, whilst the UK Corporate Governance Code does not apply to AIM companies, the Directors observe the requirements of the UK Corporate Governance Code to the extent they consider appropriate in light of the Group's size, stage of development and resources. So far as practicable, the Board also follows the recommendations set out in the Corporate Governance Code for Small and Mid-Size Quoted Companies, published in May 2013 by the Quoted Companies Alliance.

The Board has established a Remuneration Committee, an Audit Committee and a Risk Committee.

Remuneration Committee

The remuneration committee is responsible for determining and agreeing with the Board the framework for the remuneration of the chairman, the executive director and other designated senior executives and, within the terms of the agreed framework, determining the total individual remuneration packages of such persons including, where appropriate, bonuses, incentive payments and share options or other share awards. The remuneration of non-executive directors is a matter for the chairman and the executive director to determine. No Director will be involved in any decision as to his or her own remuneration.

The remuneration committee comprises Chris Bell, Richard Rosenberg and Amit Ben Yehuda who chairs the committee. The remuneration committee meets at least twice a year and otherwise as required.

Share option schemes

The Company operates the Global Share Incentive Plan (the "GSIP") in which employees participate. The Board, determines the grant of options for employees.

Tamir Fishman is the appointed trustee (the "Trustee") for the purposes of the Company's GSIP.

In connection with the share options granted to date, on 21 January 2015 and on 14 July 2017, the Trustee, for the purposes of the GSIP, has subscribed for 10,000,000 and 4,000,000 ordinary shares of US$0.000001 each in the Company at par. The shares will be used to satisfy future obligations of the Company under the GSIP. Under the terms of the agreement entered by the Company with the Trustee, the Trustee has agreed to waive its voting rights and all entitlements to dividends issued by the Company, in each case, in respect of such shares prior to the transfer of those shares to satisfy the exercise of options pursuant to the terms of the GSIP. On 31 December, 2017 the balance of the trustee's Shares is 4,822,747.

Directors' Report

Non-executive's interests in share options as follows:

	Options granted	Exercise price	Expiry date	Vested at the end of 2017	Cancelled
Amit Ben Yehuda	180,000	69.7p	27/07/2024	75,000	–
Chris Bell	270,000	57.75p	21/01/2023	247,500	–
Richard Rosenberg	180,000	57.75p	21/01/2023	165,000	–

Mr. Weihs' and Mr. Dahan's interests in share options as follows:

	Option granted	Exercise price	Expiry date	Vested at the end of 2017	Exercised
Ory Weihs	1,540,000	15.4c	25/2/2022	1,540,000	1,540,000
Ory Weihs	1,000,000	49p	25/2/2022	1,000,000	1,000,000
Mr. Yehuda Dahan	180,000	49p	25/2/2022	168,750	123,760

For further information, see note 14 to the consolidated financial statements

Directors' remuneration

The Directors' remuneration for the year ended 31 December 2017 is set out in the table below.

	Management fees/salary and related	Bonus	Cost of share based payments	Total 2017
		USD in thousands		
Chris Bell	94	–	3	97
Richard Rosenberg	54	–	5	59
Amit Ben Yehuda	53	–	1	54
Yaron Eitan[3]	4	–	–	4
Jonas Martensson[4]	16	–	–	16
Ory Weihs	240	*200	2	442
Yehuda Dahan[5]	305	125	1	431

* According to services agreement.

Audit Committee

The audit committee is responsible for monitoring the integrity of the Company's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Company's internal control and risk management systems, monitoring the effectiveness of the internal audit function and overseeing the relationship with the external auditors (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings).

The audit committee comprises of Chris Bell, Richard Rosenberg and Amit Ben Yehuda, and is chaired by Mr. Rosenberg. The audit committee meets at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required. The audit committee also meets regularly with the Company's external auditors.

Internal controls

The Directors are responsible for the Group's internal controls, and have established a framework intended to provide reasonable assurance against material financial misstatement or loss. The Company engaged an external auditor from BDO who conducted an audit and presented its finding to the audit committee according to the multiple year audit plan.

3 Mr. Eitan resigned his role during March 2017.

4 Mr. Martensson was appointed in October 2017.

5 Mr. Dahan was appointed in January 2018

Directors' Report

Financial reporting
The Group's trading performance is monitored on an ongoing basis. An annual budget is prepared and specific objectives and targets are set. The budget is reviewed and approved by the Board. The key trading aspects of the business are monitored daily and internal management and financial accounts are prepared monthly. The results are compared to budget and prior year performance.

Procedures
The Group's procedures are documented and set out for all employees' review. The Company's management is responsible for the implementation of these procedures and compliance is monitored.

Financial instruments
The Group's financial instruments are discussed in note 12 to the financial statements.

Risk committee
The Board has established a risk committee chaired by Chris Bell. The other members consist of Richard Rosenberg and Ory Weihs. The risk committee receives presentations from management on risk, compliance and regulatory issues and reviews the related internal control systems. From time to time, representatives of the Company's lawyers are invited to attend risk committee meetings and/or present at them.

Share dealing code
The Company has adopted a share dealing code for Directors and applicable employees of the Group for the purpose of ensuring compliance by such persons with the provisions of the AIM Rules relating to dealings in the Company's securities (including, in particular, Rule 21 of the AIM Rules) and in accordance with the Market Abuse Regulations. The Directors consider that this share dealing code is appropriate for a company whose shares are admitted to trading on AIM.

Statement of Directors' responsibilities in respect of the financial statements
The Directors are responsible for preparing the annual reports and the Group and Company financial statements in accordance with applicable law and regulations.

Jersey company law requires the Directors to prepare accounts for each financial period. Under that law, and as required by the AIM Rules for Companies, the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). In preparing these financial statements, the Directors are required to:

- present fairly the Group and Company financial position, financial performance and cash flows;
- select suitable accounting policies in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgments that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRS, as adopted by the EU, is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance; and
- state whether the Group and Company financial statements have been prepared in accordance with IFRS, as adopted by the EU, subject to any material departures disclosed and explained in the financial statements.

Directors' statement as to disclosure of information to auditors
The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 6. Having made enquiries of fellow Directors and of the Company's auditors each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' Report

Employees

The Directors recognise the value of involving employees in the business and ensure that matters of concern to them, including the Group's aims and objectives, are communicated in an open and regular manner. Management frequently briefs employees of the Group's performance and activities and discusses matters of concern or interest. Our employee initiatives include a confidential employee helpline. The Group's employees participate in the Global Share Incentive Plan. Recruitment gives equal opportunity to all employees regardless of age, sex, color, race, religion or ethnic origin. Training programs are held for all levels of staff. These are aimed at increasing skills and contribution.

Annual general meeting

The Group will be holding its AGM on 23 May 2018.

Events after the reporting period

For significant events after the reporting period please refer to note 22 to the financial statements.

Going concern

The Board is satisfied that the Group has adequate financial resources to continue to operate for the foreseeable future and is financially sound. For this reason, the going concern basis is considered appropriate for the preparation of financial statements.

Auditor

A resolution to reappoint Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global (EY), as auditors of the Company will be put to the Annual General Meeting. The Directors will also be given the authority to fix the auditors' remuneration.

During the year the auditors undertook certain specific pieces of non-audit work (including work in relation to tax matters and the evaluation of potential acquisition targets). EY were selected to undertake these tasks due to their familiarity with the online industry and, as regards tax, their alignment with work carried out under the audit. In order to maintain EY's independence and objectivity, EY undertook its standard independence procedures in relation to those engagements.

Auditor's remuneration	2017	2016
Audit services	**168**	172
Acquisition and assurance services	**10**	140
Taxation compliance	**129**	113

By Order of the Board

Yehuda Dahan
Company Secretary

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Independent Auditors Report

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To the Shareholders of
XLMedia PLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of XLMedia PLC and its subsidiaries (the Group), which comprise the consolidated statements of financial position as of 31 December 2017 and 2016 and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2017 and 2016 and its financial performance and its cash flows for each of the years then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditors Report

	Description of Key Audit Matter and why a matter of most significance in the audit	Description of Auditor's Response
Revenue recognition	Revenues are significant to the consolidated financial statements based on their quantitative materiality. As such, there is inherent risk that revenues may be improperly recognised, inflated or misappropriated. Recognition of revenues in the accounts of the Group is a highly automated process. The Group is heavily reliant on the reliability and continuity of its in-house IT platform to support automated data processing in its recognition and recording of revenues.	In 2017 in order to gain the required level of assurance, we performed substantive audit procedures relating to the recognition and recording of revenues, including tests of reconciliations from underlying data to the financial accounts. IT audit specialists were deployed to assist in understanding the design and operation of the relevant IT systems and in performing various data analyses in order to test completeness, accuracy and timing of the recognition of revenues.
Goodwill Domains and Websites – impairment test	As of 31 December 2017, the total carrying amount of goodwill, domains and websites with indefinite useful life is approximately USD 75.8 million. In accordance with IFRSs as adopted by the European Union, the Group is required to annually test these assets for impairment. This annual impairment test was significant to our audit because the assessment process is complex and judgmental and based on assumptions that are affected by expected future market or economic conditions.	Our audit procedures included, among others evaluating the assumptions and methodologies used by the Group. In particular, we assessed the recoverability of these assets by reviewing management's forecasts of revenues and profitability. We evaluated and tested the discount rates and allocation of expenses among the various segments. We also verified the adequacy of the disclosure of the assumptions and other data in Note 9 to the consolidated financial statements.
Taxation	The Group's operations are subject to income tax in various jurisdictions. Taxation is significant to our audit because the assessment process is complex and judgmental and the amounts involved are material to the consolidated financial statements as a whole.	We included in our team tax specialists to analyze and evaluate the assumptions used to determine tax provisions. We evaluated and tested the underlying support, such as transfer price studies, for the calculation of income taxes in the various jurisdictions. We also assessed the adequacy of the Group's disclosures in Note 15 to the consolidated financial statements.

Other information included in the Group's 2017 Annual Report
Other information consists of the information included in the Group's 2017 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2017 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the board of directors for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The board of directors is responsible for overseeing the Group's financial reporting process.

Independent Auditors Report

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the year ended 31 December 2017 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements
The consolidated financial statements have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

A. PEREZ
Albert Perez

For and on behalf of
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Beer Sheva, Israel
12 March 2018

Consolidated Statements of Financial Position

	Note	As of 31 December 2017	2016
		USD in thousands	
Assets			
Current assets:			
Cash and cash equivalents		**38,416**	32,095
Short-term investments	6 (a)	**4,861**	3,091
Trade receivables	7 (a)	**18,950**	17,075
Other receivables	7 (b)	**4,665**	3,463
Financial derivatives	12 (b)	**200**	1,002
		67,092	56,726
Non-current assets:			
Long-term investments	6(b)	**681**	609
Property and equipment	8	**1,230**	1,229
Goodwill	9	**30,052**	26,302
Deposit for acquisition of websites		**–**	9,300
Domains and websites	9	**45,762**	26,739
Other intangible assets	9	**8,585**	5,948
Deferred taxes	15	**862**	85
Other assets		**244**	171
		87,416	70,383
		154,508	127,109

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Financial Position

		As of 31 December	
		2017	2016
	Note	USD in thousands	
Liabilities and equity			
Current liabilities:			
Trade payables		**9,813**	9,274
Other liabilities and accounts payable	10	**10,972**	9,721
Income tax payable	15	**8,573**	4,475
Financial derivatives	12 (b)	**1,425**	–
Current maturity of long-term bank loan	11	**2,500**	–
		33,283	23,470
Non-current liabilities:			
Long-term bank loan	11	**2,500**	–
Income tax payable	15	**1,825**	–
Deferred taxes	15	**42**	126
Other liabilities		**201**	228
		4,568	354
Equity	13		
Share capital		***)**	*)
Share premium		**68,417**	66,812
Capital reserve from share-based transactions		**1,227**	1,208
Capital reserve from transaction with non-controlling interests		**(2,445)**	(506)
Retained earnings		**49,167**	34,349
Equity attributable to equity holders of the Company		**116,366**	101,863
Non-controlling interests		**291**	1,422
Total equity		**116,657**	103,285
		154,508	127,109

* Lower than USD 1 thousand.

The accompanying notes are an integral part of the consolidated financial statements.

12 March 2018			
Date of approval of the financial statements	Chris Bell Chairman of the Board of Directors	Ory Weihs Chief Executive Officer	Yehuda Dahan Chief Financial Officer

Consolidated Statements of Profit and Loss and Other Comprehensive Income

		Year ended 31 December	
		2017	**2016**
	Note	**USD in thousands (except per share data)**	
Revenues	16	**137,632**	103,605
Cost of revenues		**64,487**	50,282
Gross profit		**73,145**	53,323
Research and development expenses		**4,474**	2,228
Selling and marketing expenses		**6,263**	4,142
General and administrative expenses		**21,639**	16,856
		32,376	23,226
Operating income		**40,769**	30,097
Finance expenses		**(2,113)**	(403)
Finance income		**689**	1,306
Finance income (expenses), net		**(1,424)**	903
Profit before taxes on income		**39,345**	31,000
Taxes on income	15	**7,474**	5,416
Net income and other comprehensive income		**31,871**	25,584
Attributable to:			
Equity holders of the Company		**30,323**	23,937
Non-controlling interests		**1,548**	1,647
		31,871	25,584
Earnings per share attributable to equity holders of the Company:	13 (d)		
Basic and diluted earnings per share (in USD)		**0.15**	0.12

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company							
	Share capital	Share premium	Capital reserve from share–based transactions	Capital reserve from transactions with non–controlling interests	Retained earnings	Total	Non–controlling interests	Total Equity
	USD in thousands							
Balance as of 1 January 2017	*)	66,812	1,208	(506)	34,349	101,863	1,422	103,285
Net income and other comprehensive income	–	–	–	–	30,323	30,323	1,548	31,871
Cost of share-based payment	–	–	419	–	–	419	–	419
Dividend to equity holders of the Company	–	–	–	–	(15,505)	(15,505)	–	(15,505)
Exercise of options	*)	1,605	(400)	–	–	1,205	–	1,205
Acquisition of non-controlling interests	–	–	–	(1,939)	–	(1,939)	(311)	(2,250)
Dividend to non-controlling interests	–	–	–	–	–	–	(2,368)	(2,368)
Balance as of 31 December 2017	***)**	**68,417**	**1,227**	**(2,445)**	**49,167**	**116,366**	**291**	**116,657**

	Attributable to equity holders of the Company							
	Share capital	Share premium	Capital reserve from share–based transactions	Capital reserve from transactions with non–controlling interests	Retained earnings	Total	Non–controlling interests	Total Equity
	USD in thousands							
Balance as of 1 January 2016	*)	64,447	1,390	(506)	22,774	88,105	1,571	89,676
Net income and other comprehensive income	–	–	–	–	23,937	23,937	1,647	25,584
Cost of share-based payment	–	–	637	–	–	637	9	646
Dividend to equity holders of the Company	–	–		–	(12,362)	(12,362)	–	(12,362)
Exercise of options	*)	2,365	(819)	–	–	1,546	–	1,546
Dividend to non-controlling interests	–	–	–	–	–	–	(1,805)	(1,805)
Balance as of 31 December 2016	***)**	**66,812**	**1,208**	**(506)**	**34,349**	**101,863**	**1,422**	**103,285**

*) Lower than USD 1 thousand.

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

	Year ended 31 December	
	2017	**2016**
	USD in thousands	
Cash flows from operating activities:		
Net income	**31,871**	25,584
Adjustments to reconcile net income to net cash provided by operating activities:		
Adjustments to the profit or loss items:		
Depreciation, amortisation and impairment	**5,932**	3,878
Finance expense (income), net	**2,813**	(906)
Cost of share-based payment	**419**	646
Taxes on income	**7,474**	5,416
Exchange differences on balances of cash and cash equivalents	**(1,545)**	589
	15,093	9,623
Changes in asset and liability items:		
Increase in trade receivables	**(1,875)**	(987)
Increase in other receivables	**(982)**	(930)
Increase (decrease) in trade payables	**539**	(1,872)
Increase in other accounts payable	**286**	1,032
Increase (decrease) in other long-term liabilities	**(27)**	73
	(2,059)	(2,684)
Cash received (paid) during the year for:		
Interest received	**17**	139
Taxes paid	**(4,154)**	(5,710)
Taxes received	**305**	–
	(3,832)	(5,571)
Net cash provided by operating activities	**41,073**	26,952

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

	Year ended 31 December	
	2017	**2016**
	USD in thousands	
Cash flows from investing activities:		
Purchase of property and equipment	**(388)**	(479)
Payment for acquired business	**(5,100)**	–
Payment of contingent consideration in respect of acquired company	**–**	(5,500)
Acquisition of and additions of domains, websites, technology and other intangible assets	**(16,160)**	(6,742)
Deposit on account of acquisition of Domains and websites	**–**	(9,300)
Collection of receivable from sale of assets	**300**	300
Short- term and long-term investments, net	**(1,595)**	4,333
Net cash used in investing activities	**(22,943)**	(17,388)
Cash flows from financing activities:		
Dividend paid to equity holders of the Company	**(15,505)**	(12,362)
Acquisition of non-controlling interests	**(2,250)**	–
Dividend paid to non-controlling interests	**(1,804)**	(1,805)
Exercise of options	**1,205**	1,546
Receipt of long-term loan from bank	**5,000**	–
Net cash used in financing activities	**(13,354)**	(12,621)
Exchange differences on balances of cash and cash equivalents	**1,545**	(589)
Increase (decrease) in cash and cash equivalents	**6,321**	(3,646)
Cash and cash equivalents at the beginning of the year	**32,095**	35,741
Cash and cash equivalents at the end of the year	**38,416**	32,095

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 1: GENERAL

(a) General description of the Group and its operations:
The Group is an online performance marketing company. The Group attracts paying users from multiple online and mobile channels and directs them to online businesses who, in turn, convert such traffic into paying customers.

Online traffic is attracted by the Group's publications and advertisements and are then directed, by the Group, to its customers in return for mainly a share of the revenue generated by such user, a fee generated per user acquired, fixed fees or a hybrid of any of these models.

For further information regarding online marketing and the Group's business segments see Note 16.

The Company is incorporated in Jersey and commenced its operations in 2012.

Since March 2014, the Company's shares are traded on the London Stock Exchange's Alternative Investment Market (AIM).

In January 2018, the Company issued 16,000,000 Ordinary shares in a placing to institutional investors at a price of 198 pence per Ordinary share. The total gross funds raised were approximately GBP 31.7 million (USD 43.6 million) and the related costs amounted to approximately GBP 1.1 million (USD 1.5 million).

(b) Definitions:
In these financial statements:

The Company	–	XLMedia PLC.
The Group	–	The Company and its consolidated subsidiaries
Subsidiaries	–	Entities that are controlled (as defined in IFRS 10) by the Company and whose accounts are consolidated with those of the Company. For a list of the main subsidiaries see Note 21.
Related parties	–	as defined in IAS 24
Dollar/USD	–	U.S. dollar

(c) Assessment of going concern:
The Board of Directors has adopted the going concern basis of accounting in preparing the consolidated financial statements.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES
The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

(a) Basis of presentation of the consolidated financial statements:
These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS as adopted by the EU**") and in accordance with the requirements of the Companies (Jersey) Law 1991.

The financial statements have been prepared on a cost basis, except for financial assets and liabilities (derivatives) that are presented at fair value through profit or loss.

The Company has elected to present profit or loss items using the function of expense method.

In 2017 new Standards and amendments became effective but they had no effect on the consolidated financial statements.

Classification of expenses in profit or loss
Cost of revenues- includes mainly compensation of personnel, media buying costs, affiliates network costs and websites promotion and content.

Research and development and Selling and marketing- includes primarily compensation of personnel.

General and administrative- includes primarily compensation and related costs of personnel, amortisation and depreciation expenses, costs related to the Group's facilities and fees for professional services.

(b) Consolidated financial statements:
The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

(b) Consolidated financial statements: continued

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

A change in the ownership interest of a subsidiary without a change of control is accounted for as an equity transaction in accordance with IFRS 10.

(c) Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the date of acquisition with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the date of acquisition or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are expensed as incurred.

Contingent consideration is recognised at fair value on the acquisition date and classified as a financial asset or liability in accordance with IAS 39. Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

Goodwill is initially measured at cost, which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognises the resulting gain on the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For purposes of evaluation of impairment of goodwill, goodwill purchased in a business combination is evaluated and attributed to the cash-generating units to which it had been allocated.

(d) Functional currency, presentation currency and foreign currency:

1. *Functional currency and presentation currency:*
   The functional and presentation currency of the Company and of its subsidiaries is the U.S. dollar ("USD").

2. *Transactions, assets and liabilities in foreign currency:*
   Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalised to qualifying assets or recorded in equity in hedges, are recognised in profit or loss. Non-monetary assets and liabilities measured at cost in foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

(e) Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

(f) Short-term and long-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months and less than twelve months from the date of acquisition. Long-term deposits are deposits with maturity of more than twelve months from the reporting date. The deposits are presented according to their terms of deposit.

(g) Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. The Company did not recognise an allowance in respect of groups of customers that are collectively assessed for impairment since it did not identify any groups of customers which bear similar credit risks. Impaired debts are derecognised when they are assessed as collectible.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

(h) Revenue recognition:
Revenues are recognised in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. When the Group acts as a principal and is exposed to the risks associated with the transaction, revenues are presented on a gross basis. When the Group acts as an agent and is not exposed to the risks and rewards associated with the transaction, revenues are presented on a net basis. Revenues are measured at the fair value of the consideration received.

(i) Taxes on income:
Current or deferred taxes are recognised in profit or loss, except to the extent that they relate to items which are recognised in other comprehensive income or equity.

1. *Current taxes:*
   The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

2. *Deferred taxes:*
   Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

   Deferred taxes are measured at the tax rate that is expected to apply when the asset is realised or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

   Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilised. Deductible temporary differences for which deferred tax assets had not been recognised are reviewed at each reporting date and a respective deferred tax asset is recognised to the extent that their utilisation is probable.

   Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Group's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability.

   Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

(j) Leases:
The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17.

Operating leases – the Group as lessee:
Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

(k) Property and equipment:
Property and equipment are measured at cost, including directly attributable costs, less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	mainly %
Office furniture and equipment	10%
Computers and peripheral equipment	33%
Leasehold improvement (over the lease term)	12.5%

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including any extension option held by the Group and intended to be exercised) and the expected life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised. An asset is derecognised on disposal or when no further economic benefits are expected from its use.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

(l) Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalised development costs, are recognised in profit or loss when incurred.

Intangible assets with a finite useful life are amortised over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each year end.

Intangible assets (domains and websites) with indefinite useful lives are not systematically amortised and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. Since the content of the domains and websites is being updated on a current basis management believes that these assets have indefinite useful lives. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate and on that date the asset is tested for impairment. Commencing from that date, the asset is amortised systematically over its useful life.

Research and development expenditures:

Research expenditures are recognised in profit or loss when incurred. An intangible asset arising from a development project or from the development phase of an internal project is recognised if the Group can demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the Company's ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the Company's ability to measure reliably the expenditure attributable to the intangible asset during its development.

The asset is measured at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. The asset is amortised over its useful life. Testing of impairment is performed annually over the period of the development project.

Software:

The Group's assets include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it is classified as property and equipment. In contrast, software that adds functionality to the hardware is classified as an intangible asset.

The useful life of intangible assets is as follows:

Systems and software (purchased and in- house development cost) are amortised on a straight-line basis over the useful life	33%

Non-competition is amortised on a straight line basis over the agreement term (between 2 to 3 years).

(m) Impairment of non-financial assets:

The Group evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable.

If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior years, and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognised in profit or loss.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

(m) Impairment of non-financial assets: continued
The following criteria are applied in assessing impairment of these specific assets:

1. *Goodwill*
The Company reviews goodwill for impairment once a year as of 31 December or more frequently if events or changes in circumstances indicate that there is impairment need for such review.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognised if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognised for goodwill cannot be reversed in subsequent periods.

2. *Domains and websites – Intangible assets with an indefinite useful life that are not systematically amortised.*
The impairment test is performed annually, on 31 December, or more frequently if events or changes in circumstances indicate that there is an impairment.

(n) Financial instruments:

1. *Financial assets:*
Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

a) Financial assets at fair value through profit or loss:
This category includes financial assets held for trading (derivatives) and financial assets designated upon initial recognition as at fair value through profit or loss.

b) Loans and receivables:
Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortised cost plus directly attributable transaction costs using the effective interest method and less any impairment losses. Short-term receivables are measured based on their terms, normally at face value.

2. *Financial liabilities:*
Financial liabilities are initially recognized at fair value. Loans and other liabilities measured subsequently at amortised cost are measured initially at fair value less direct transaction costs.

After initial recognition, loans and other liabilities are measured based on their terms at amortised cost less directly attributable transaction costs using the effective interest method.

3. *Derecognition of financial instruments:*

a) Financial assets:
A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

b) Financial liabilities:
A financial liability is derecognised when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the Group discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

4. *Impairment of financial assets:*
The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows:

Financial assets carried at amortised cost:
Objective evidence of impairment exists when one or more events that have occurred after initial recognition of the asset have a negative impact on the estimated future cash flows. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

(o) Derivative financial instruments:
The Group enters into contracts for derivative financial instruments such as forward currency contracts to hedge risks associated with foreign exchange fluctuations. Such derivative financial instruments that do not qualify for hedge accounting are initially recognised at fair value at the inception of the contract and are subsequently remeasured at fair value. Changes in the fair value of these instruments are recorded immediately in profit or loss.

(p) Fair value measurement:
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorised into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 – inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

(q) Provisions:
A provision in accordance with IAS 37 is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense is recognised in profit or loss net of the reimbursed amount.

(r) Employee benefit liabilities:
The Group has several employee benefit plans:

1. *Short-term employee benefits:*
   Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognised as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognised when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. *Post-employment benefits:*
   The plans are financed by contributions to insurance companies or pension funds and classified as defined contribution plans.

   The Israeli subsidiaries of the Group have defined contribution plans pursuant to Section 14 to the Severance Pay Law under which the subsidiary pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognised as an expense when contributed concurrently with performance of the employee's services.

(s) Share-based payment transactions:
The Group's employees and officers are entitled to remuneration in the form of equity-settled share-based payment transactions.

Equity-settled transactions:
The cost of equity-settled transactions with employees and officers is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model - additional details are given in Note 14.

In estimating fair value, the vesting conditions (consisting of service conditions and performance conditions other than market conditions) are not taken into account.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

(s) Share-based payment transactions: continued
The cost of equity-settled transactions is recognised in profit or loss together with a corresponding increase in equity during the period which the performance is to be satisfied ending on the date on which the relevant employees or officers become entitled to the award ("the vesting period"). The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. No expense is recognised for awards that do not ultimately vest.

(t) Earnings per share:
Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the number of Ordinary Shares outstanding during the period. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company. If the number of Ordinary Shares outstanding increases as a result of a capitalisation, bonus issue, or share split, the calculation of earnings per share for all periods presented are adjusted retrospectively.

Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share.

NOTE 3: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

(a) Judgments:
In the process of applying the significant accounting policies, the Group made the following judgments which have the most significant effect on the amounts recognised in the financial statements:

– Business combinations:
  The Group is required to allocate the acquisition cost of entities and activities through business combinations on the basis of the fair value of the acquired assets and assumed liabilities. The Group uses external and internal valuations to determine the fair value. The valuations include management estimates and assumptions as for future cash flow projections from the acquired business and selection of models to compute the fair value of the acquired components and their depreciation period. Management estimates influence the amounts of the acquired assets and assumed liabilities and depreciation and amortization in profit or loss.

(b) Estimations and assumptions:
The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

– Impairment of goodwill, domains and websites:
  The Group reviews goodwill, domains and websites for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit to which the assets are allocated and also to choose a suitable discount rate for those cash flows. See also Note 9.

– Income taxes
  The Group is subject to income tax in various jurisdictions and judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises tax liabilities based on assumptions supported by, among others, transfer price studies. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. See also Note 15.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 4: DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

(a) IFRS 15, "Revenue from Contracts with Customers":

IFRS 15 ("**the new Standard**") was issued by the IASB in May 2014.

The new Standard replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The new Standard introduces a five-step model that will apply to revenue earned from contracts with customers:

Step 1: *Identify the contract with a customer*, including reference to contract combination and accounting for contract modifications.

Step 2: *Identify the separate performance obligations in the contract*

Step 3: *Determine the transaction price*, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

Step 4: *Allocate the transaction price to the separate performance obligations* on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

Step 5: *Recognize revenue when a performance obligation is satisfied*, either at a point in time or over time.

The new Standard is to be applied retrospectively for annual periods beginning on 1 January, 2018.

The new Standard allows the option of modified retrospective adoption with certain reliefs according to which the new Standard will be applied to existing contracts from the initial period of adoption and thereafter with no restatement of comparative data. Under this option, the Company will recognize the cumulative effect of the initial adoption of the new Standard as an adjustment to the opening balance of retained earnings (or another component of equity, as applicable) as of the date of initial application. Alternatively, the new Standard permits full retrospective adoption with certain reliefs.

The Company plans to elect the modified retrospective adoption method upon the initial application of the new Standard.

After having evaluated the effects of the application of the new Standard, the Company believes that the adoption is not expected to have a material effect on the Company's financial statements.

(b) IFRS 9, "Financial Instruments":

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("**the new Standard**"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". The new Standard addresses all three aspects of financial instruments: classification and measurement, impairment and hedge accounting.

According to the new Standard, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortized cost only if both of the following conditions are met:

– The asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

– The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets should be at fair value. The new Standard establishes a distinction between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income (loss), in accordance with the election by the Company on an instrument-by-instrument basis. If equity instruments are held for trading, they should be measured at fair value through profit or loss.

The new Standard introduces a three-stage model for measuring impairment of financial debt instruments that are not measured at fair value through profit or loss based on the expected credit loss method. Each stage determines the basis of measurement of expected credit losses based on the changes in the debt instrument's credit risk. The model also grants a relief for financial assets with short credit terms, such as trade receivables.

According to the new Standard, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected.

According to the new Standard, changes in the fair value of financial liabilities measured at fair value which are attributable to the change in credit risk should be presented in other comprehensive income. All other changes in fair value should be presented in profit or loss.

The new Standard also prescribes new hedge accounting requirements but allows entities to continue adopting the provisions of IAS 39 regarding hedge accounting. The new Standard expands the disclosure requirements of an entity's risk management activities.

The new Standard is to be applied for annual periods beginning on January 1, 2018.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 4. DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION continued

(b) IFRS 9, "Financial Instruments": continued

Excluding with respect to hedge accounting, the provisions of the new Standard should be adopted retrospectively, with no mandatory restatement of comparative figures. As for hedge accounting, the provisions of the new Standard should be adopted prospectively, except for a few exceptions.

The Company plans to adopt the new Standard on 1 January, 2018 without restatement of comparative figures and carry any cumulative effect of the adoption to retained earnings (or other equity component, as applicable).

After having evaluated the implications of the adoption of the new Standard, the Company estimates that its adoption is not expected to have a material impact on the Company's financial statements.

(c) IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

The effects of the adoption of the new Standard are as follows:

- Lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases, see below) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".
- Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expense separately.
- Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates but are based on performance or use (such as a percentage of revenues) are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.
- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset.
- The new Standard includes two exceptions according to which lessees are permitted to elect to apply a method similar to the current accounting treatment for operating leases. These exceptions are leases for which the underlying asset is of low value and leases with a term of up to one year.
- The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after 1 January, 2019. Early adoption is permitted. At this stage, the Company does not intend to early adopt the new Standard.

The new Standard permits lessees to use one of the following approaches:

1. Full retrospective approach – according to this approach, the effect of the adoption of the new Standard at the beginning of the earliest period presented will be carried to equity. Also, the Company will restate the comparative figures in its financial statements.
2. Modified retrospective approach – this approach does not require restatement of comparative data. The balance of the liability as of the date of first-time adoption of the new Standard will be calculated using the existing discount rate on the date of first-time adoption. As for the outstanding right-of-use asset, the Company may apply one of the two following alternatives to account for each lease separately:
   - Recognizing an asset in the amount of the recognized liability, with certain adjustments.
   - Recognizing an asset as if the asset had always been measured according to the provisions of the new Standard.

Any difference arising on the date of first-time adoption of the new Standard as a result of the modified retrospective approach will be carried to equity.

The Company is evaluating the possible effects of the new Standard and the different alternatives of adoption. However, at this stage, the Company is unable to quantify the impact on the financial statements.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 4. DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION continued

(d) Annual Improvements to IFRS Cycle for 2015-2017:
In December 2017, the IASB issued amendments to the following standards in the context of the Annual Improvements to IFRS 2015-2017 Cycle:

IFRS	Subject of amendment
IFRS 3	The amendment clarifies that when an entity obtains control of a business that is a joint operation (as defined in IFRS 3), it remeasures previously held interests in that business at fair value.
IFRS 11	The amendment clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
IAS 12	The amendment clarifies that all income tax consequences of payment of dividends should be recognized in profit or loss, other comprehensive income or equity, based on the classification of the transaction or event which created the distributable profits.
IAS 23	The amendment clarifies that borrowings made specifically for the purpose of constructing a qualifying asset will be classified for the purpose of capitalization of borrowing costs to qualifying assets as funds that an entity borrows generally when the underlying qualifying asset is ready for its intended use or sale and some of the specific borrowing related to that qualifying asset remains outstanding at that point.

The amendments will be applied for annual periods beginning on January 1, 2019. Each amendment may be early adopted separately.

The Company does not expect the amendments to have any material impact on the financial statements.

(e) IFRIC 23, "Uncertainty over Income Tax Treatments":
In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("the Interpretation"). The Interpretation clarifies the rules of recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12, "Income Taxes", in situations of uncertainty involving income taxes. The Interpretation provides guidance on considering whether some tax treatments should be considered collectively, examination by the tax authorities, measurement to reflect uncertainty involving income taxes in the financial statements and accounting for changes in facts and circumstances underlying the uncertainty.

The Interpretation is to be applied in financial statements for annual periods beginning on 1 January, 2019. Early adoption is permitted. Upon initial adoption, the Company will apply the Interpretation using one of two approaches:

1. Full retrospective adoption, without restating comparative data, by recording the cumulative effect through the date of initial adoption in the opening balance of retained earnings.
2. Full retrospective adoption including restatement of comparative data.

The Company does not expect the Interpretation to have any material impact on the financial statements.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 5: BUSINESS COMBINATIONS

(a) In February 2017, the Company, through Dau-Up Clicksmob Ltd ("Dau-up Clicksmob"), a wholly owned subsidiary, acquired the business and assets of Clicksmob Inc. for a total consideration of USD 5.1 million, comprising of an immediate cash payment and additional contingent consideration payable in cash within six months subsequent to the acquisition date based on a working capital target for the purchased business. Clicksmob Inc. delivered performance-based user acquisition to leading apps across a number of verticals, including gaming, e-commerce, travel, entertainment and finance.

Total acquisition cost:

	USD in thousands
Cash paid	4,080
Contingent consideration liability (paid during 2017)	1,020
Total acquisition cost	5,100

Acquisition cost allocation:

Fair value of identifiable net assets (primarily software)	1,350
Goodwill arising on acquisition	3,750
	5,100

The goodwill arising on acquisition is attributed to the expected benefits from the synergies of the combination of the activities of the Group's Media segment and the acquired activity.

From the acquisition date, the acquired activity was merged into Dau-up Clicksmob operation. If the business combination had taken place at the beginning of 2017, the effects on consolidated revenues and results of operation would not have been material.

(b) In August 2017, the Company entered into an agreement to acquire the remaining minority shareholding (46%) in Marmar (the "Acquisition") for a total consideration of approximately USD 2.3 million. As a result of the acquisition, the difference between the consideration and the carrying amount of the non-controlling interests in the amount of USD 1.9 million was recorded in capital reserve from transactions with non-controlling interests.

(c) At end of 2017 XLMedia contributed its business activity to XLMedia Publishing Limited, a wholly owned subsidiary incorporated in Jersey.

NOTE 6: SHORT-TERM AND LONG-TERM INVESTMENTS

	Annual interest rate *)	As of 31 December 2017	As of 31 December 2016
		USD in thousands	USD in thousands
Short-term investments:			
Short-term bank deposits (**):			
In USD	0.5%	**2,512**	1,576
In NIS	0.2%	**1,595**	1,500
In EURO		**668**	15
In GBP		**86**	–
		4,861	3,091
Long-term financial assets			
Bank deposit- in NIS (**)	0.8%	**681**	609

*) The above interest rates are the weighted average rates as of 31 December 2017.

**) Includes deposits in the amount of USD 4,979 thousand with fixed liens recorded as security for credit card transactions in connection with advertising campaigns and other online purchasing over the internet as well as for financial derivative transactions and bank guarantee provided in connection with its lease agreement on property.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 7: TRADE AND OTHER RECEIVABLES

a. Trade receivables:

	As of 31 December	
	2017	2016
	USD in thousands	
Open accounts	**20,734**	17,610
Less – allowance for doubtful accounts	**1,784**	535
Trade receivables, net	**18,950**	17,075

As of 31 December 2017, the Group has no material amounts that are past due and not impaired.

See Note 12(b) (2) on credit risk of trade receivables.

b. Other receivables:

	As of 31 December	
	2017	2016
	USD in thousands	
Prepaid expenses	**2,254**	1,841
Government authorities	**1,684**	762
Other receivables	**727**	860
	4,665	3,463

NOTE 8: PROPERTY AND EQUIPMENT

	Computers, furniture, office equipment and others	Leasehold improvements	Total
		USD in thousands	
Cost:			
Balance as of 1 January 2016	1,771	282	2,053
Acquisitions during the year	398	81	479
Balance as of 31 December 2016	2,169	363	2,532
Acquisitions during the year	309	79	388
Acquisitions of business and assets	52	–	52
Balance as of 31 December 2017	**2,530**	**442**	**2,972**
Accumulated depreciation:			
Balance as of 1 January 2016	781	82	863
Depreciation during the year	405	35	440
Balance as of 31 December 2016	1,186	117	1,303
Depreciation during the year	398	41	439
Balance as of 31 December 2017	**1,584**	**158**	**1,742**
Depreciated cost as of 31 December 2017	**946**	**284**	**1,230**
Depreciated cost as of 31 December 2016	983	246	1,229

Depreciation expenses are included in General and administrative expenses.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 9: INTANGIBLE ASSETS

a. Composition and movement:

	Goodwill	Domains and websites	Non–competition	Systems, software and other	Total
			USD in thousands		
Cost:					
Balance as of 1 January 2016	26,302	23,897	3,205	6,998	60,402
Acquisitions during the year	–	3,042	196	1,105	4,343
Costs capitalised during the year (in-house development cost)	–	–	–	3,048	3,048
Balance as of 31 December 2016	26,302	26,939	3,401	11,151	67,793
Acquisitions of business and assets[(1)]	3,750	–	124	1,174	5,048
Acquisitions during the year[(2)]	–	20,428	715	872	22,015
Costs capitalised during the year (in-house development cost)	–	–	–	3,840	3,840
Balance as of 31 December 2017	**30,052**	**47,367**	**4,240**	**17,037**	**98,696**
Accumulated amortisation and impairment:					
Balance as of 1 January 2016	–	–	1,870	3,496	5,366
Amortisation during the year	–	–	645	2,323	2,968
Impairment loss	–	200	270	–	470
Balance as of 31 December 2016	–	200	2,785	5,819	8,804
Amortisation during the year	–	–	656	3,406	4,062
Impairment loss	–	1,405	26	–	1,431
Balance as of 31 December 2017	**–**	**1,605**	**3,467**	**9,225**	**14,297**
Amortised cost as of 31 December 2017	**30,052**	**45,762**	**773**	**7,812**	**84,399**
Amortised cost as of 31 December 2016	26,302	26,739	616	5,332	58,989

(1) See Note 5(a).

(2) Material acquisitions during the year:

– In January 2017, the Company completed the acquisition of personal finance comparison websites in Canada, for a total cash consideration of USD 9.3 million.

– In August 2017, the Company completed an additional acquisition of personal finance comparison website in USA for a total cash consideration of USD 7 million.

Amortisation expenses are included in General and administrative expenses.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 9: INTANGIBLE ASSETS continued

b. Impairment of intangible assets with an indefinite useful life:
Following are the carrying amounts of goodwill, domains and websites allocated to cash generating units ("CGU") that comprise the following segments:

	Goodwill	Domains and websites	Total
	USD in thousands		
Publishing segment(1)	2,416	45,762	48,178
Media segment(2)	27,636	–	27,636
	30,052	45,762	75,814

(1) Publishing segment
The recoverable amounts of domains and websites and the recoverable amount of the publishing segment CGUs to which the goodwill was allocated were determined based on a value in use calculation using estimated cash flow projections. The pre-tax discount rate applied to the cash flow projections is 12.1% (2016 - 12.1%). The projected cash flows are estimated using a fixed growth rate of 3% (2016 - 3%).

The key assumptions used in calculating the value in use:

Revenues and operational profit – the revenues and the profit rate assumptions are based on management expectations as reflected in the Group's budget for the coming year approved by the Company's board and in management's forecasted cash flows for the following three years.

Discount rate – the discount rate reflects management's assumptions regarding the CGU's specific risk premium.

Growth rate – the growth rate applied for the period beyond the four year forecasted period is based on the long-term average growth rate as customary in similar industries.

(2) Media segment
The media segment goodwill was generated from Dau-Up, Marmar and ClicksMob acquisitions. The recoverable amount of the media segment CGU's was determined based on a value in use calculation using estimated cash flow projections. The pre-tax discount rate applied to the cash flow projections is 14.1% (2016 - 14.1%). The projected cash flows are estimated using a fixed growth rate of 3% (2016 - 3%).

The key assumptions used in calculating the value in use:

Revenues and operational profit – the revenues and the profit rate assumptions are based on management expectations as reflected in the Group's budget for the coming year approved by the Company's board and in management's forecasted cash flows for the following three years.

Discount rate – the discount rate reflects management's assumptions regarding the CGU's specific risk premium.

Growth rate – the growth rate applied for the period beyond the four year forecasted period is based on the long-term average growth rate as customary in similar industries.

As of 31 December 2017, the recoverable amount of each of the segments exceeds their carrying amount. In 2017 the Company recorded an impairment loss of approximately USD 1.4 million in respect of specific domains which are no longer in use by the Company.

Sensitivity analyses of changes in assumptions:
With respect to the assumptions used in determining the value in use of the CGUs in each of the segments, management believes that there are no reasonably possible changes in the key assumptions detailed above which might cause the carrying amount of the CGUs to exceed their recoverable amount.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 10: OTHER LIABILITIES AND ACCOUNTS PAYABLE

	As of 31 December	
	2017	**2016**
	USD in thousands	
Employees and payroll accruals	**7,312**	5,091
Liability for intangible assets acquisition	**254**	649
Government authorities	**707**	857
Accrued expenses	**1,475**	1,791
Other liabilities	**1,224**	1,333
	10,972	9,721

NOTE 11: LOAN FROM BANK

a. Composition:

	December 31,	
	2017	**2016**
	USD in thousands	
Long-term bank loan	**5,000**	–
Less - current maturities	**2,500**	–
	2,500	–

b. Loan terms:

On 29 December 2017, a subsidiary the Company received a loan from a bank in the amount of USD 5 million. The loan is repayable in 24 equal installments and carries an interest rate of USD Libor +4.45% (as of 31 December, 2017- 6.1%).

The Company's subsidiary committed towards the bank, among others, to maintain financial covenants, which will be measured on a quarterly basis.

As of 31 December, 2017, the Company's subsidiary is meeting the financial covenants.

c. Liens- see Note 17(b).

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 12: FINANCIAL INSTRUMENTS

(a) Classification of financial assets and liabilities:
The financial assets and financial liabilities in the statement of financial position are classified by groups of financial instruments pursuant to IAS 39:

	As of 31 December	
	2017	**2016**
	USD in thousands	
Financial assets		
Financial assets at fair value through profit or loss:		
Financial derivatives	**200**	1,002
Financial assets measured at amortised cost:		
Cash and cash equivalents	**38,416**	32,095
Short-term investments and long-term investment	**5,542**	3,700
Trade receivables	**18,950**	17,075
Other receivables	**727**	860
Non-current account receivable	**–**	171
Total financial assets measured at amortised cost	**63,635**	53,901
Total financial assets	**63,835**	54,903
Total current	**63,154**	54,123
Total non-current	**681**	780

	As of 31 December	
	2017	**2016**
	USD in thousands	
Financial liabilities		
Financial assets at fair value through profit or loss:		
Financial derivatives	**1,425**	–
Financial liabilities measured at amortised cost:		
Trade payables	**9,813**	9,274
Other liabilities and account payables	**10,265**	8,747
Bank loan	**5,000**	–
Total financial liabilities measured at amortised cost	**25,078**	18,021
Total financial liabilities	**26,503**	18,021
Total current	**24,003**	18,021
Total non-current	**2,500**	–

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 12: FINANCIAL INSTRUMENTS continued

(b) Financial risks factors:
The Group's activities expose it to various financial risks.

1. *Market risk – Foreign exchange risk:*
   A significant portion of the Group's revenues are received in EURO. The Group also have revenues that are received in GBP. A significant portion of the Israeli subsidiaries expenses are paid in New Israeli Shekels ("NIS"). Therefore, the Group is exposed to fluctuations in the foreign exchange rates in EURO, GBP and NIS against the USD.

   For the year ended 31 December 2017 the Group recorded foreign exchange rate differences expenses, net in the amount of USD 606 thousand (net of gain on forward transactions, see below) (2016- income of USD 1,102 thousand).

   The Company entered into forward contracts with the intention to reduce the foreign exchange risk of forecasted cash flows. These contracts are not designated as hedges for accounting purposes and are measured at fair value through profit or loss.

   The open positions as of 31 December 2017:

   Forward transactions for the sale of EURO in exchange for USD totaling EURO 31.5 million (USD 36.8 million), are for periods ending from January 2018 until December 2018.

   Forward transactions for the sale of USD in exchange for NIS totaling USD 2.4 million (NIS 8.5 million), are for periods ending from February 2018 until May 2018.

   The Group bought Put option and sold Call option for the sale of USD in exchange for NIS totaling USD 11.9 million (NIS 41.1 million), which are for periods ending from January 2018 until July 2018.

   Forward transactions for the sale of GBP in exchange for USD totaling GBP 2.1 million (USD 2.8 million), are for periods ending from January 2018 until April 2018.

   As of 31 December 2017, the total fair value of the above forward transactions amounted to USD 1,425 thousand (liabilities) and USD 200 thousand (asset).

2. *Credit risk:*
   The Group usually extends 30-60 day term to its customers. The Group regularly monitors the credit extended to its customers and their general financial condition but does not require collateral as security for these receivables.

   The Group maintains cash and cash equivalents and short-term investments and long-term investments in various financial institutions. These financial institutions are located in the EU, Israel, Europe and US.

3. *Liquidity risk:*
   The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (including interest payments):

As of 31 December 2017:

	Less than one year	1 to 2 years	Total
	USD in thousands		
Trade payables	9,813	–	9,813
Other liabilities and account payables	10,265	–	10,265
Financial derivatives	1,425	–	1,425
Bank loan	2,734	2,582	5,316
	24,237	2,582	26,819

As of 31 December 2016:

	Less than one year	1 to 2 years	Total
			USD in thousands
Trade payables	9,274	–	9,274
Other liabilities and account payables	8,747	–	8,747
	18,021	–	18,021

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 12: FINANCIAL INSTRUMENTS continued

(c) Fair value:
The carrying amounts of the Group's financial assets and liabilities approximate their fair value.

The fair value of financial derivatives is categorised within level 2 of fair value hierarchy.

(d) Sensitivity tests relating to changes in market factors:

	As of 31 December	
	2017	**2016**
	USD in thousands	
Sensitivity test to changes in Euro to Dollar exchange rate:		
Gain (loss) from the change:		
Increase of 10% in exchange rate	**(3,003)**	(738)
Decrease of 10% in exchange rate	**3,004**	738
Sensitivity test to changes in NIS to Dollar exchange rate:		
Gain (loss) from the change:		
Increase of 10% in exchange rate	**(1,038)**	(2,669)
Decrease of 10% in exchange rate	**1,601**	3,040

The sensitivity tests reflect effects of reasonably possible changes in exchange rates on hedging position of the Group for the above currencies as of the end of the year. As described in (b) 1 above, these contracts are intended to reduce the Group's exposure to fluctuations in exchange rates on future revenues and expenses. Therefore, although it is expected the above effects will be offset by contra effects upon the recording of the revenues and expenses, the timing of these effects may not coincide in the same reporting period.

Sensitivity tests and principal assumptions:
The selected changes in the relevant risk variables were determined based on management's estimate as to reasonable possible changes in these risk variables.

The Group has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the effects (before tax) on profit or loss and equity in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the functional currency and assuming that all the other variables are constant.

The Group does not have significant exposure to interest rate risk.

(e) Changes in liabilities arising from financial activities:
In 2017 the changes in liabilities arising from financial activities comprise the receipt of a bank loan in the amount of USD 5 million.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 13: EQUITY

(a) Composition of share capital:

	As of 31 December 2017	
	Authorised	Issued and outstanding
	Number of shares	
Ordinary Shares of USD 0.000001 par value	**100,000,000,000**	**199,529,655**

	As of 31 December 2016	
	Authorised	Issued and outstanding
	Number of shares	
Ordinary Shares of USD 0.000001 par value	100,000,000,000	197,697,423

- In addition to the above issued shares, as of 31 December 2017, 4,822,747 Ordinary Shares are held in trust to satisfy the Company's share based payment plan.
- Subsequent to the reporting date the Company issued 16,000,000 Ordinary Shares, see Note 1.

(b) Movement in share capital:

1. In 2017 the Company issued 1,832,232 Ordinary shares upon the exercise of options.
2. In 2016 the Company issued 4,250,269 Ordinary shares upon the exercise of options.

(c) Dividends paid to equity holders of the Company:

Date	Total amount	Per share
	USD in millions	USD
26 February 2016	5.0	0.025
4 November 2016	7.5	0.038
7 April 2017	7.5	0.038
13 October 2017	8.0	0.040

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 13: EQUITY continued

(d) Net earnings per share:
Details of the number of shares and income used in the computation of earnings per share:

	Year ended 31 December			
	2017		2016	
	Weighted number of shares	Net income attributable to equity holders of the Company	Weighted number of shares	Net income attributable to equity holders of the Company
	In thousands	USD in thousands	In thousands	USD in thousands
Number of shares and income for the computation of basic net earnings	**198,739**	**30,323**	195,127	23,937
Effect of potential dilutive Ordinary shares *)	**3,592**	**–**	3,711	–
For the computation of diluted net earnings	**202,331**	**30,323**	198,838	23,937

*) Options, see Note 14.

NOTE 14: SHARE-BASED PAYMENT
The expense recognised in the financial statements for services received is shown in the following table:

	Year ended December 31,	
	2017	2016
	USD in thousands	
Total expense arising from share-based payment transactions	**419**	646

(a) In August 2013 the Company adopted a Share Option Plan. In December 2017 the Company adopted an additional plan. According to the plans, the Company's Board of Directors is entitled to grant certain employees, officers and other service providers (together herein "employees") of the Group remuneration in the form of equity-settled share-based payment transactions.

Pursuant to the plans, the Company's employees may be granted options to purchase the Company's Ordinary shares. These options may be exercised, subject to the continuance of engagement of such employees with the Company, within a period of eight years from the grant date, at an exercise price to be determined by the Company's Board of Directors at the grant date.

All grants to Israeli employees through 2017 were made in accordance with Section 102 of the Income Tax Ordinance, capital-gains track (with a trustee).

2016 grants
In 2016, the Company granted options to employees (including directors). The options vest in varying amounts over a period of up to four years from the grant date.

The following table lists the inputs used for the fair value measurement of the grants in 2016:

Option pricing model	Black-Scholes-Merton formula
Exercise price (USD)	0.85–1.07
Dividend amount (USD)	0.23–0.34
Expected volatility of the share prices	48.2%–51.1%
Risk- free interest rate (USD)	0.17%–0.85%
Expected life of share options (years)	5.2–4.8
Share price GBP (USD)	0.708 (1.01)–0.9 (1.17)

The total fair value of these grants was calculated at USD 1.1 million at the grant date (an average of USD 0.28 per option).

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 14: SHARE-BASED PAYMENT continued

2017 grants

In 2017, the Company granted to employees (including non- executive directors) of the Company 1,030,000 options to purchase 1,030,000 Ordinary shares. The options will vest over three years from the grant date and are exercisable up to a period of eight years from the date of grant.

The following table specifies the inputs used for the fair value measurement of the grant:

Option pricing model	Black-Scholes-Merton formula
Exercise price GBP (USD)	1.06 (1.3)–1.34 (1.8)
Dividend amount (USD)	0.24–0.33
Expected volatility of the share price (%)	47.7%–47.9%
Risk- free interest rate (GBP curve)	0.59%–0.75%
Expected life of share options (years)	5.2
Share price GBP (USD)	1.06 (1.3)–1.38 (1.86)

The total fair value of the options granted was calculated at USD 565 thousand at the grant date (USD 0.55 per option)

In calculating the cost of share-based payments to be recorded as an expense, the Company includes an estimate of forfeiture rates, which are adjusted to actual over the period of vesting.

(b) Movement during the year:

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	in thousands	USD	in thousands	USD
Share options outstanding at beginning of year	**9,590**	**0.79**	11,671	0.68
Share options granted during the year	**1,030**	**1.71**	3,789	0.98
Share options forfeited during the year	**(2,000)**	**0.96**	(1,620)	0.8
Share options exercised during the year	**(1,832)**	**0.66**	(4,250)	0.36
Share options outstanding at end of year	**6,788**	**1.01**	9,590	0.79
Share options exercisable at end of year	**2,561**	**0.81**	2,061	0.63

(c) The weighted average remaining contractual life for the options outstanding as of 31 December 2017 was 6 years (2016 – 6.5 years).

(d) The range of exercise prices for options outstanding as of 31 December 2017 was USD 0.66 – USD 1.8 (2016 – USD 0.15 – USD 1.07).

(e) For additional grant subsequent to the reporting date see Note 22(b).

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 15: TAXES ON INCOME

(a) Profits arising in the Company for 2017 tax assessment will be subject to Jersey tax at the standard corporate income tax rate of 0% (2016 – 0%).

(b) Tax law applicable to the Company's Israeli subsidiaries is the Israeli tax law- Income Tax Ordinance (new version) 1961.

– The Israeli corporate tax rate applicable in 2017 is 24% (2016- 25%).

In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Achieving the Budget Targets for the 2017 and 2018 Budget Years), 2016, which reduces the corporate tax, rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018. The effect of the change in tax rates on deferred tax balances at 31 December 2016 was immaterial.

– Amendment to the Law for the Encouragement of Capital Investments, 1959:

According to the Amendment, a flat tax rate applies to two of the Group subsidiaries' entire preferred income under their status as a preferred enterprise. The tax rate under the Amendment in 2017 and 2016 is 16%.

The Amendment also prescribes that any dividends distributed to individuals or foreign residents from the preferred enterprise's earnings as above will be subject to withholding tax at a rate of 20%.

– Amendment 73 to the Law also prescribes special tax tracks for technological enterprises, which became effective in 2017, as follows:

Technological preferred enterprise – an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion. A technological preferred enterprise, as defined in the Law, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property.

Any dividends distributed to "foreign companies", as defined in the Law, deriving from income from the technological enterprises will be subject to a withholding tax at a rate of 4%.

(c) The tax rate applicable in Cyprus is 12.5%. The Company has a branch in Cyprus.

(d) The applicable U.S. federal statutory income tax rate for the Company's subsidiary for 2017 is 35%.

(d) Final tax assessments:

– In 2017 two subsidiaries in Israel reached a final tax assessment agreement with the Income Tax Authorities in Israel for the years 2012 – 2015, according to which the subsidiaries will pay additional taxes in the amount of USD 4.3 million plus interest in the amount of 0.7 million in 18 equal installments carries 4% interest rate and linkage. In 2017 the Company recorded an additional tax expenses of USD 1.9 million in respect of this assessment, see (e) below.

– Two subsidiaries in Israel have received final tax assessment through 2013.

– The Company has not received final tax assessments since incorporation.

(e) Taxes on income included in profit or loss:

	Year ended 31 December	
	2017	**2016**
	USD in thousands	
Current taxes	**6,414**	5,436
Deferred taxes	**(861)**	(20)
Taxes in respect of previous years	**1,921**	–
Total	**7,474**	5,416

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 15: TAXES ON INCOME continued

(f) Theoretical tax:
The reconciliation between the tax expense, assuming that all the income and expenses were taxed at the statutory tax rate (in Jersey) and the taxes on income recorded in profit or loss is as follows:

	Year ended 31 December	
	2017	2016
	USD in thousands	
Profit before taxes on income	**39,345**	31,000
Tax at the statutory rate applicable to the Company	**–**	–
Taxes in respect of previous years	**1,921**	–
Tax at the domestic rates applicable to profits of the subsidiaries in Israel and Cyprus branch	**5,553**	5,416
Total taxes	**7,474**	5,416

(g) Deferred taxes:
Composition:

	Statements of financial position		Statements of profit or loss	
	December 31,		Year ended December 31,	
	2017	2016	2017	2016
	USD in thousands			
Deferred tax liabilities:				
Intangible assets	**42**	126	**(84)**	(191)
Deferred tax assets:				
Intangible assets	**667**	7	**(660)**	83
Allowance for doubtful account	**104**	52	**(52)**	(42)
Employee benefits	**91**	26	**(65)**	130
	862	85		
Deferred tax benefit			**(861)**	(20)
Deferred tax assets (liabilities), net	**820**	(41)		

The deferred taxes are computed at the tax rates of 23% ,16% and 12% based on the tax rates that are expected to apply upon realization (2016 – 24% and 16%).

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 16: OPERATING SEGMENTS

(a) General:

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated and assess its performance. Accordingly, for management purposes, the Group is organised into operating segments based on the products and services of the business units and has operating segments as follows:

Publishing – The Group owns over 2,300 informational websites in 18 languages. These websites refer potential customers to online businesses. The sites' content, written by professional writers, is designed to attract online traffic which the Group then directs to its customers online businesses.

Media – The Group's Media division acquires online and mobile advertising targeted at potential online traffic with the objective of directing it to the Group's customers. The Group buys advertising space on search engines, websites, mobile and social networks and places adverts referring potential users to the Group's customers' websites or to its own websites.

Partners Network – The Group manages marketing partners, whose role is to direct online traffic to the Group's customers for which the Group receives revenues. The Group is responsible for paying its partners. The Group's partner program enables affiliates to have a single point of contact, collection and negotiation for the traffic generated by them, rather than engaging with multilateral negotiation, operations and collection from online operators.

Segment performance (segment profit) is evaluated based on revenues less direct operating costs. Items that were not allocated are managed on a group basis.

(b) Reporting on operating segments:

	Publishing	Media	Partners Network	Total
		USD in thousands		
Year ended 31 December 2017:				
Revenues	62,894	66,428	8,310	137,632
Segment profit	50,309	19,982	1,423	71,714
Unallocated corporate expenses				(30,945)
Finance income, net				(1,424)
Profit before taxes on income				39,345
Year ended 31 December 2016:				
Revenues	46,057	47,645	9,903	103,605
Segment profit	38,384	13,779	1,160	53,323
Unallocated corporate expenses				(23,226)
Finance income, net				903
Profit before taxes on income				31,000

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 16: OPERATING SEGMENTS continued

(c) Geographic information:
Revenues classified by geographical areas based on internet user location:

	Year ended 31 December	
	2017	**2016**
	USD in thousands	
Scandinavia	**38,250**	33,054
Other European countries	**41,621**	28,295
North America	**29,665**	21,724
Oceania	**3,493**	4,951
Asia	**10,940**	178
Other countries	**3,766**	2,037
Total revenues from identified locations	**127,735**	90,239
Revenues from unidentified locations	**9,897**	13,366
Total revenues	**137,632**	103,605

NOTE 17: COMMITMENTS AND LIENS

(a) Leases
Group companies (as lessee) have entered into commercial real estate lease agreements. The leases are non-cancellable for periods of between 2-3 years with annual lease fees of approximately USD 1,608 thousands.

The Group recorded fixed liens on long-term bank deposit in connection with these agreements (see Note 6).

(b) As collateral for subsidiary's bank loan, fixed charges have been placed on the subsidiary's share capital and goodwill and floating charges charge on the subsidiary's assets.

NOTE 18: BALANCES AND TRANSACTIONS WITH RELATED PARTIES

(a) Balances:

	As of 31 December	
	2017	**2016**
	USD in thousands	
Current liabilities:		
Management fees and other short-term payables	**1,080**	1,011
Non-current liability	**125**	112

(b) Benefits to key management personnel: *)

	As of 31 December	
	2017	**2016**
	USD in thousands	
Short-term benefits and other	**1,781**	1,790
Cost of share-based payments	**37**	47
	1,818	1,837

*) Includes directors.

Notes to Consolidated Financial Statements
For the year ended 31 December 2017

NOTE 18: BALANCES AND TRANSACTIONS WITH RELATED PARTIES continued

(c) Transactions with related parties:

	Year ended 31 December	
	2017	**2016**
	USD in thousands	
Management fees to shareholders *)	**992**	619
Cost of share based payments	**3**	68
	995	687

*) Including fees paid in 2017 to key management personnel USD 440 thousands (2016- USD 440 thousands).

(d) Service Agreements

The Group signed a service agreement with a consulted who then also a shareholder. The agreement was terminated in August 2017. The management fees and termination agreement costs for the year ended 31 December 2017 were USD 552 thousands (2016- USD 180 thousands).

NOTE 19: POST -EMPLOYMENT BENEFITS

The post-employment employee benefits are financed by contributions classified as defined contribution plans.

	Year ended 31 December	
	2017	**2016**
	USD in thousands	
Expenses in respect of defined contribution plans	**1,510**	1,083

NOTE 20: SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF PROFIT OR LOSS

	Year ended 31 December	
	2017	**2016**
	USD in thousands	
Employee benefit expenses are included in *):		
Cost of revenues	**12,182**	8,889
Research and development	**4,449**	2,226
Selling and marketing	**5,882**	3,703
General and administrative	**7,131**	6,288
	29,644	21,106

*) Includes cost of share- based payment.

Notes to Consolidated Financial Statements

NOTE 21: LIST OF MAIN SUBSIDIARIES

	2017		2016	
	Shares conferring voting rights	Shares conferring rights to profits	Shares conferring voting rights	Shares conferring rights to profits
	%		%	
	100	**100**	100	100
Webpals Holdings Ltd	**100**	**100**	100	100
Webpals Systems S.C Ltd	**100**	**100**	100	100
Dau-Up Clicksmob Ltd (formerly ExciteAd Digital Marketing Ltd.)	**100**	**100**	100	100
Marmar Media Ltd	**100**	**100**	54	54
Webpals, Inc.	**100**	**100**	100	100
XLMedia Finance Limited	**100**	**100**	100	100
XLMedia Publishing Limited	**100**	**100**	–	–

NOTE 22: SUBSEQUENT EVENTS

(a) In January 2018, the Company announced that it has agreed to acquire a network of leading Finnish gambling informational websites for a total cash consideration of up to EUR 15 million.

(b) In January 2018, the Company granted 3,000,000 options to employees (including to the Company's CEO and other key management personal), exercisable to 3,000,000 ordinary share in an exercise price of GBP 2.02 per share.

(c) In January 2018, the Company raised from the issuance of Ordinary shares a net amount of approximately GBP 30.6 million, see Note 1.

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98%
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79%
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